ALLOWABILITY & APPROPRIATENESS:

HOW TO KNOW IF EXPENSES ARE ALLOWABLE

Iowa State University
Controller's Department
3607 Administrative Services Building

Training Facilitators:

Bill Cahill
Manager, Accounting Services
Accounting Office
294-5124
bpcahill@iastate.edu

Troy Nichols
Accountant, Sponsored Programs Accounting
294-8945
tdnicho@iastate.edu

Updated May 29, 2018
DEFINITIONS

ALLOWABLE expenditures CAN be charged.

- Has an ISU business purpose (exception: agency (206) funds)
- Adequately documented – would hold up to audit scrutiny
- Defined in applicable state and federal laws, regulations, university and sponsor policies, and terms and conditions specified in contractual documents
- Type of account (funding source) affects allowable; payment method does not

APPROPRIATE expenditures SHOULD be charged.

- Necessary and beneficial to the University and to the sponsor; if questionable, needs to be well-documented
- Reasonable – Use the Des Moines Register test
- For 4XX accounts, the expenditure must be necessary to perform the work funded by the sponsor

RESPONSIBILITY FOR ALLOWABILITY AND APPROPRIATENESS:

Expenditures charged to all university accounts must be both allowable and appropriate. The department and/or college are ultimately responsible for providing information on the business purpose and determining that an expenditure is allowable and appropriate.

DOCUMENT RETENTION:

In general, most documentation related to accounting transactions is attached to the KFS document, cy3uy, P-Card, or Employee Reimbursement. However, with some payment processes, the department, unit or service center is responsible for the collection, audit of expenditures, and retention of accounting source documents. Some examples of these processes where the department and/or unit retains the source documents are KFS Cash Receipt transactions, and intramural billings generated by service centers. Whenever possible, accounting transaction documentation should be attached and retained within the university’s central systems.
Most funds available for ISU spending are subject to three major Iowa governing bodies:

- Iowa Code, which is a composite of all laws passed by the Iowa General Assembly - https://www.legis.iowa.gov/law/iowaCode;
- Iowa Administrative Code, which are rules written by the Executive Branch and have the full effect and force of law - https://www.legis.iowa.gov/law/administrativeRules/agencies; and

Types of ISU Funds:

1XX, 70X, and 721 Funds: Fund accounts beginning with 1XX, 70X and 72X are general state appropriations. Funds in the 1XX series are considered restricted or special state appropriations. Restricted appropriations include funds for the Agricultural Experiment Station and Cooperative Extension. The 70X funds are state appropriations given for general operating and salary expenditures for instruction, research and extension and are not subject to reversion. Any remaining balances at year-end are transferred out of that fund group into 721 accounts. 721 funds are called advance commitment funds. Advance commitment funds represent remaining cash carried forward into a subsequent fiscal year and must have a spending plan per institution policy guidelines from the Office of the Executive Vice President and Provost. These funds are still considered general fund accounts and year end balances automatically carry forward.

71X Funds: Fund accounts beginning with 71X are accounts established for the collection and distribution of revenue and allocated expenses under the Budget Model.

2XX Funds (excluding 206s and 290s): Fund accounts beginning with 2XX, excluding 206 and 290, are called service center accounts or recharge/auxiliary accounts. Service center accounts are established for the sale of goods and services by University departments. Activities are related to the University's primary missions and create goods or services sold to students, staff, and the general public. Expenditures in these accounts must relate to the services provided. Examples of activities in these accounts are greenhouse rentals, central stores, transportation services, meat laboratory, departmental copying services, etc.

206 Funds: 206 fund accounts are called agency accounts. Monies are held by ISU but are "owned" by another party. Agency accounts are established only for organizations meeting specific criteria, such as registered student organizations, departmental vending accounts, affiliated entities (recognized by the Board of Regents), county extension offices, professional organizations related to academic disciplines where an ISU employee is generally the treasurer, editor, etc. An ISU business purpose is not required for expenditures, but agency requirements for expenditures may exist.

290 Funds: 290 fund accounts are accounts established for discretionary funds. Funds deposited into these accounts must be unrestricted and cannot be transferred from other restricted fund accounts. Examples of monies that could be deposited or transferred into a
290 account are residual funds from an expired fixed price sponsored project (4XX account) and payments made for staff consulting services or from teaching for Extension and Continuing Education. Expenses from 290 funds must have an ISU business purpose and comply with Regents and ISU spending policies. Goods or equipment purchased from 290 funds are property of the University and ARE NOT PERSONAL PROPERTY. If the ISU employee leaves their employment at the University, the property remains with ISU.

3XX Funds: The 3XX funds represent endowed gifts, along with their gains, losses, and earnings, given directly to the University as opposed to the ISU Foundation.

4XX Funds: Fund accounts beginning with 4XX are Sponsored Programs accounts originating from contractual agreements between the University and external sponsors. External sponsors include Federal agencies, commodity boards, corporations, individuals, private foundations, and state agencies. A contractual agreement is a written document between the University and sponsor to carry out a specific project and normally entails a scope of work and/or a deliverable of some kind. These agreements are legally binding documents, and generally include administrative terms and conditions restricting the use of the funds. For cost reimbursable agreements, expenditures in these accounts must provide benefit to the sponsored project and comply with applicable terms and conditions.

490 Funds: Accounts established for faculty eligible to receive distribution of Facilities & Administrative (a.k.a. indirect) revenue generated from sponsored projects. Funds can only be used for ISU business purposes and must comply with Regents and ISU spending policies. Goods or equipment purchased from 490 funds are the property of the University and ARE NOT PERSONAL PROPERTY. If the ISU employee leaves his/her employment at the University, the property remains with ISU.

497 Funds: The 497 funds are ISU Foundation parallel accounts. Each 497 account corresponds to a specific ISU Foundation account. The ISU Foundation reimburses the University monthly for all expenditures charged to the 497 accounts. Expenditures charged to 497 accounts must comply with any donor restrictions.

5XX Funds: 5XX fund accounts are commonly referred to as Plant Funds. Plant fund accounts are used to track expenditures for capitalized projects such as buildings, capital improvements such as repairs, replacements, and alterations, revenue bonds for debt associated with capital projects, and the University's equipment lease program.

6XX Funds: Fund accounts beginning with 6XX are direct federal appropriations or federal American Recovery and Reinvestment Act (ARRA) funding received via the State of Iowa.

8XX Funds: The University's student loan programs are administered through the 8XX accounts. These loan funds come from private, state, and federal programs.

907 Funds: 907 accounts are commonly called petty cash funds. These accounts show the outstanding balance of funds being held as petty cash in various University operations by departments.